

ABSTRACT

Commerce or Contraband: An examination of the impact of the effect of direct shipment on taxable sales of wine in the United States

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A recent U.S. Supreme Court ruling in *Granholm v. Heald*, 544 U.S. 460 (2005), held that laws in New York and Michigan discriminated against out-of-state wineries by allowing only in-state wineries to ship directly to consumers. This has led to legislation being passed in all but 12 states allowing at least a limited amount of interstate shipment of wine between producers and consumers. Prior to *Granholm*, most states required that all viniferous liquors be handled through the three-tier distribution system whereby producers sold only to wholesalers (or in many cases the state), and wholesalers or state stores sold to consumers. Based on an interstate demand model constructed first using data from 2005, and updated in 2009, the interstate sale of wine in the United States rose from 6.2 percent of the market to about 10.4 percent. In addition to growing substantially, the percentage of these sales that were not subject to state excise taxation – either through direct avoidance or legitimate tax free sales – rose from an insubstantial amount to nearly 9 percent of the total wine market in the United States. This paper examines the growth in both the non-taxed and interstate sale of wine in the United States and its potential causes.

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